

SCENARIOS AT WORK

Oxford Scenarios Programme



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How a quant became a little more quantitative

Christian Visdomini explains how he uses scenarios thinking at work.

Change Group Americas (CGA) is a team of professionals that delivers comprehensive solutions to companies in domestic and international markets. Our four major functional divisions are Corporate Finance and Strategy, Accounting, HR, Organisational Effectiveness, and Compliance and Prevention. We use the organisation's collective strengths across cross-functional teams to create end-to-end solutions that improve our clients' operational, financial and organisational performance.

I primarily work in Corporate Finance and Strategy, which means that if a client has a problem in any type of transaction, my job is to evaluate the landscape and advise on possible courses of action. Obviously this is with help from colleagues with the appropriate expertise in accounting, regulatory compliance, or human resources and organisational effectiveness.

Most of my colleagues (with the exception of those in the HR and Organisational Effectiveness Team), and indeed I myself, have what in finance we would call a typical 'quant' background. Work is primarily based on quantitative analysis and we usually approach

problems using mathematical or statistical methods.

However, I have something of a secret ingredient. While I was studying at Oxford, I met Rafael Ramirez and was fascinated by his lectures on scenarios planning. So I decided to enrol for a week on the Oxford Scenarios Programme, which has changed my approach: I have moved from a mere quantitative outlook to something a little bit more qualitative; from possibility to plausibility.

To be honest, I have only once so far used a traditional scenarios planning approach for a client, coming up with three or four different plausible 'stories'. However, I use scenarios thinking all the time, and it has been enormously helpful for my clients.

Even after the Oxford programme, I still start with quantitative analysis. This is partly because clients believe – sometimes erroneously – that if you can put a figure to something then it is scientific and measurable. It is also easier to understand the present situation through numbers that are verified and verifiable.

Only after I have exercised my quantitative side in understanding what is happening in the present do I create some scenarios. Most people in my profession will provide advice based on what history, historical patterns or experience can tell us. If a client is being audited by a regulatory

agency, for example, we would think about what happened to other clients who had been audited by the same agency in the past, and provide advice that is to a certain extent based on their experiences. However, I find that introducing some scenarios thinking, painting some potential pictures of what could happen next, is proving very valuable to clients. It can prepare them for the worst case as well as for the best case – even if they don't want to consider it. Most importantly, it prepares them for alternative cases that they would consider unlikely if using quantitative analysis alone, and which require actions that they may therefore deem too costly or disruptive.

A few years ago, I remember asking a client, "What if the regulatory landscape affecting your company changes?" Together with a couple of colleagues we fleshed out a portrait of a situation in which the regulatory landscape became much more stringent for smaller hedge funds. Indeed that is exactly what happened soon afterwards with the Dodd Frank Act.

Some people are not receptive to this sort of thinking, but for those who are it can prepare the company in a good way for dealing with one or more possible future developments. Obviously, preparing full strategies to respond to every possible scenario would be very expensive, but sometimes just being aware can be beneficial. Certainly, not thinking at all about how circumstances might change in the future can be a massive mistake.

We have one client, for example, that designs and manufactures luxury lingerie and intimate apparel. It had aggressive growth plans, and asked us to handle a project for raising investment in the company. One of our scenarios considered the effects of losing their manufacturing operations in China. This possibility was immediately dismissed by the Creative Director as something that would not happen.

However, in one of those million-to-one type of situations, which is nevertheless

the reason it is worth using scenarios in planning, the company that owned the factory lost a big contract in another sector - thereby losing the ability to continue financing production and large-scale business operations. As a result, the factory had to re-focus on few larger clients, and that meant that our client did lose the ability to manufacture in China. They are now looking around to find an alternative manufacturer – work that could have been started relatively inexpensively four months ago, and which would have left them ahead of the market.

Many of our other clients operate in heavily regulated industries. In such an environment a small change can have a very big effect, so work that we are doing that looks at plausible future scenarios is very useful. We are also finding that scenario thinking adds greatly to the strategic advice we give to clients who want to invest in politically unstable parts of the world. The potential rewards in those countries are all the greater simply because it is impossible to predict what will happen, but our work allows them to recognise and prepare responses to problems such as creeping expropriation.

We have been successfully using scenario planning, and scenario thinking, across our four crossfunctional teams, from business combinations and projections to employee relations and change management and leadership – to name just a few.

Scenario thinking is very valuable to us and our clients. However, we understand that in many cases time of the essence, and the implementation cost of long-term actions is a factor too. We usually prepare alternative futures and present them to our clients in a very short time. Our turn-around time ranges between three and 12 weeks, as opposed to traditional scenario work that can take anywhere between three and ten months. We create immediately implementable plans with a time horizon of five years or less. That's one of the reasons that we are about to include scenario thinking in anything that we do.

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